

W.E. UPJOHN
INSTITUTE
FOR EMPLOYMENT RESEARCH

Business Outlook for West Michigan

Volume 33 | Number 2

Article 1

6-1-2017

Business Outlook, Vol. 33, No. 2, Summer 2017

Follow this and additional works at: https://research.upjohn.org/bus_outlook

Additional Data

[upbov33-2_MSA_Tables.pdf](#)

[MSA_Tables_Summer_17.pdf](#)

Citation

W.E. Upjohn Institute 2017. Business Outlook for West Michigan. 33(2).

https://research.upjohn.org/bus_outlook/vol33/iss2/1

This title is brought to you by the Upjohn Institute. For more information, please contact repository@upjohn.org.

A photograph of an industrial welding process, showing bright orange sparks emanating from a welding torch. The scene is set in a factory environment with various mechanical components and equipment visible in the background. A prominent red diagonal graphic element runs across the image from the top left to the bottom right, partially obscuring the photograph.

BUSINESS OUTLOOK *for* **West Michigan**

**W.E. UPJOHN INSTITUTE FOR
EMPLOYMENT RESEARCH**

Vol. XXXIII, No. 2 Summer 2017

W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

Board of Trustees of the W.E. Upjohn Unemployment Trustee Corporation

Donald R. Parfet, *Chairman*
Marilyn J. Schlack, *Vice Chairman*
B. Joseph White, *Secretary/Treasurer*
John M. Dunn
Frank J. Sardone
Amanda Van Dusen
Sydney E. Parfet
Eileen Wilson-Oyelaran
Preston S. Parish, *Trustee Emeritus*

Randall W. Eberts, *President*
W.E. Upjohn Institute for Employment Research

Business Outlook for West Michigan is published four times a year by the W.E. Upjohn Institute for Employment Research. The Institute, a nonprofit research organization, is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was formed in 1932 for the purpose of conducting research into the causes and effects of unemployment and measures for the alleviation of unemployment.

ISSN 0748-4216

BUSINESS OUTLOOK

for **West Michigan**

James E. Robey

Director, Regional Economic Planning Services

Brian M. Pittelko

Regional Analyst

Benjamin C. Jones

Editor

Erika D. Jones

Production Coordinator

Vol. XXXIII, No. 2

Summer 2017

W.E. Upjohn Institute for Employment Research

We gratefully acknowledge the following organizations as sponsors of *Business Outlook*:

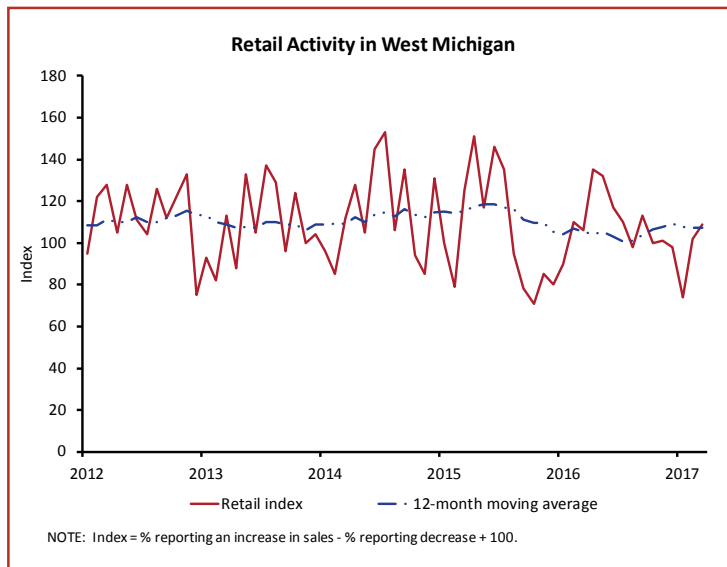


Contents

West Michigan Viewpoint	I
National Economy	2
Office Furniture and Leisure Industries	4
Auto Industry Update	5
State of Michigan Economy	6
Battle Creek MSA	8
Grand Rapids–Wyoming MSA	10
Holland–Ottawa County	12
Kalamazoo-Portage MSA	14
Muskegon–Norton Shores MSA	16
Niles–Benton Harbor MSA	18
Purchasing Managers Index	20

WEST MICHIGAN VIEWPOINT

Mighty mastodons once dominated the North American landscape. Yet today their remains, such as the 13,000-year-old beast discovered last fall in a Michigan field, are found only in museums. Some may see the extinction of this noble beast, which fell victim to changing conditions during the Ice Age, as a possible precursor to the fate of brick-and-mortar retail stores. Indeed, the national press has been forecasting an impending “retail ice age” caused by the rise of Internet commerce and leading to the demise of brick-and-mortar retail behemoths. Throughout the country, once-household names and mainstays of many communities, like Sears (265 stores closed this year), JCPenney (138 stores), and Macy’s (100 stores), continue to announce mass layoffs and store closures.



Yet despite the national trend, retail conditions in Michigan appear to be stable, at least for now.

Still, the deleterious impacts of Internet sales and e-commerce on local economies have spawned worry that brick-and-mortar retail properties across the country will lose tenants and be unable to find replacements, leaving stranded structures on the terrain, like carcasses on a frozen tundra.

Is west Michigan in danger of entering a retail deep freeze? It depends on how one measures retail activity. The share of retail as part of total employment for west Michigan is well below the shares for both the state and the nation. But while the retail index over the past five years appears to be volatile, the 12-month moving average finds that sales for retail are slightly up over

the past year (see figure above). So even though consumers are buying online in droves from Amazon and other retail vendors, brick-and-mortar stores continue to be strong in the region. Jack Kleinhenz, chief economist for the National Retail Federation, reports that 90 percent of retail sales nationally during the 2016 holiday season were from brick-and-mortar stores.

Furthermore, according to CoStar, which provides data and analytics on the commercial real estate market, retail markets have added about four million square feet since 2008 and are now at 144.3 million square feet. For the same period, vacancy rates have been cut in half, from 7.6 percent to 3.7 percent. However, the quoted rate for a square foot of retail space has declined from \$10.29 in 2008 to \$9.91 now, reflecting some downward pressure on prices.

One commonly watched market is that of malls. According to CoStar, west Michigan contains 15 properties considered to be malls. That number has been relatively constant since 2008, as has the total square footage at just over 10 million square feet. Vacancies in those malls have dropped from about 4.5 percent to just under 3.0 percent, and rents are up for mall space.

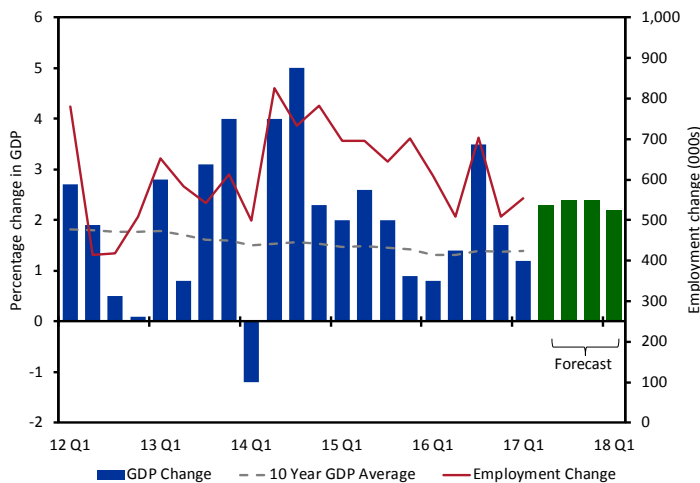
So are we in a retail ice age in west Michigan—i.e., an era in which conditions change so radically that traditional retail is threatened with, if not extinction, then at least decimation? Probably not, according to the meteorology of retail. The share of employment from retail is down, it is true. But available space is stable, vacancies are declining, and sales are slightly up, according to the retail index.

Most important, demand appears to be strong: in a study of retail market demand done for the city of Kalamazoo by the Gibbs Planning Group, the consultant notes that there is plenty of additional capacity for retail in west Michigan, as both Grand Rapids and Kalamazoo made the list of the 20 most underserved retail markets in the United States. So it would seem that the mastodon brick-and-mortar stores are not yet succumbing to the onslaught of Internet purchasing and will live to lumber into the future.

NATIONAL ECONOMY

A consensus of early estimates of first-quarter gross domestic product (GDP) pegged annualized growth at 1.1 percent. That looked especially disappointing compared to the fourth quarter of last year, which registered growth of 1.9 percent. However, the final revision, in late June, raised those early estimates of the national economy's growth to 1.4 percent for the quarter. That is still well below the current administration's stated goal of 3 to 4 percent growth, which many see as unrealistic. The Survey of Professional Forecasters, conducted by the Federal Reserve Bank of Philadelphia, continues to forecast growth rates for the macroeconomy of 2.1 percent for 2017, 2.5 percent in 2018, and 2.1 percent in 2019.

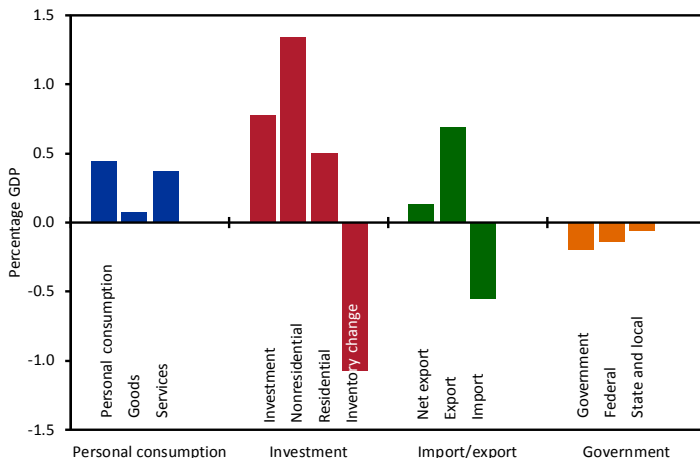
Gross Domestic Product and Nonfarm Employment



Although the GDP rate for the first quarter was 1.4 percent, forecasters continue to see future growth as being above the 2.0 percent level.

What is holding the economy back from a full-throated roar? Partly it is a lack of certainty. Congress has not been able, aside from confirming a Supreme Court justice, to move forward on its agenda. Two main issues, health-care change and tax reform, remain in the pipeline, as yet undelivered. Another limiting factor is lackluster growth in employment. As shown in the above figure, fewer than 600,000 jobs were added in the first quarter. Although January (227,000) and February (235,000) came in relatively strong, the U.S. has had much stronger employment growth during periods of sluggish GDP growth. And March job growth was much weaker at 98,000.

Major Activity Contribution to GDP Change in Current Quarter



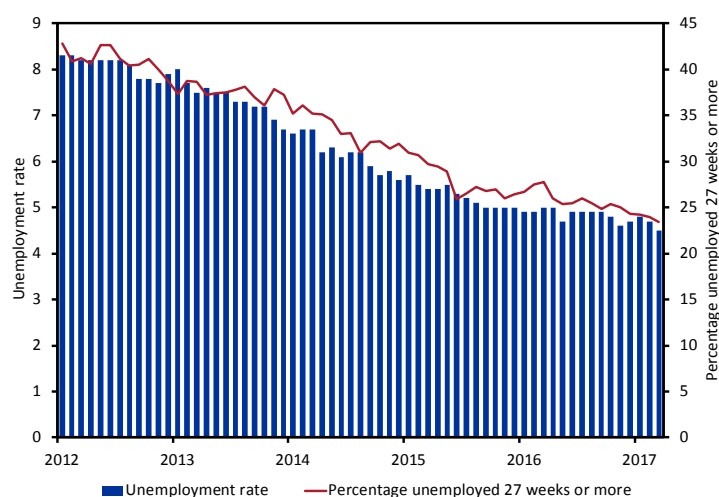
The long-run trend for net exports has been negative. However, this quarter bucks the trend, despite a relatively strong U.S. dollar, by being positive.

This, of course, has to do with a lack of workers. With unemployment hovering at about 4.5 percent for the nation in March, the economy is arguably at “full” employment (see figure below). As the unemployment rate has fallen over the past several years, so too has the share of workers who have remained unemployed for 27 weeks or more. Conversely, there has been a rise in the labor force participation rate (LFPR)—the share of workers 16 and over who are active in the labor force. The LFPR ticked upward to 63.0 percent in March from its recent low of 62.4 in 2016, but it remains well below its high point of 67.3 percent, reached way back in 2000.

The services sector led growth in personal consumption, and nonresidential investment outperformed residential investment, while inventories declined steeply (see bottom figure, p. 2). The relatively low rate of residential investment is surprising given that new residential construction in March, according to Moody’s, was at 1.25 million units, up 9.2 percent from the same time last year. It was also surprising that exports were positive, particularly given the strength of the dollar against the pound, euro, and Canadian dollar.

One term that has been in the news a great deal recently refers to a retail “ice age” or “apocalypse.” Consumers’ growing use of e-commerce has called into question what role brick-and-mortar retail will have in the future. But so far, at least according to CoStar, an industry database for corporate real estate, the ice age

U.S. Unemployment Rate and Long-Term Unemployment



Labor markets continue to be tight: the U.S. economy has been under 5 percent unemployment—what is considered full employment—for the past several quarters.

has not begun in earnest: through the first quarter of 2017, the total retail market reached 10.5 billion square feet, having grown from just over 10 billion square feet in 2008. Interestingly, vacancy rates for the same period dropped from 6.5 percent to 4.9 percent, a 25 percent decrease, and sales are slightly up over the past year. However, one sign of a weakening market is that quoted rates per square foot have declined slightly.

Indeed, the long-run outlook for many big-box anchors in malls and shopping centers is hardly positive. According to an article in *Forbes*, many retailers will need to close stores and divest themselves of some of their real estate holdings. The article notes that in 2017, JCPenney is scheduled to close 138 stores, Sears and Kmart 265 stores, The Limited 250 stores, and Staples 70 stores.

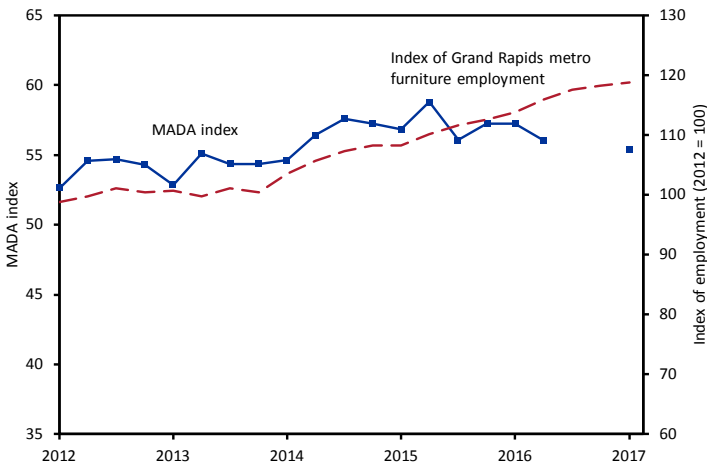
Part of the challenge from these closings will be what to do with the vacant space. Historically, new retailers would have moved into that space, but e-commerce giants like Amazon don’t operate on that model, and even traditional retailers are moving parts of their business to an e-commerce channel. As a result, there may not be customers for such spaces. That being said, sales in the combined category of retail and food increased in the first quarter, to 1.418 trillion, from 1.404 trillion for the fourth quarter of 2016.

So, while retail indicators remain favorable, it must be recognized that the national economy has been in one of its longest periods of recovery, and everything that operates on a cycle will come to an end—the wheel will turn ‘round. Few economists are uttering the “R” word with regard to the near future, even though the “risk of recession” (the projected likelihood that the country will be in recession in six months’ time), as calculated by Moody’s Analytics, has been traveling upward: it stood at 6 percent in March but increased to 9 percent in April and was pegged at 11 percent in May. While not a cause for worry, it would bode well for us to keep an eye on conditions.

OFFICE FURNITURE & LEISURE INDUSTRIES

The Office Furniture Industry Index from Michael A. Dunlap and Associates (MADA) measured 55.41 in the first quarter of 2017—index values above 50 mean expansion. Although there is a gap in the data, in 2016 the index appears to be hovering just above 50, suggesting that although the industry is growing, expansion is modest and may be slowing.

MADA Office Furniture Industry Index and Index of West Michigan Furniture Industry Employment

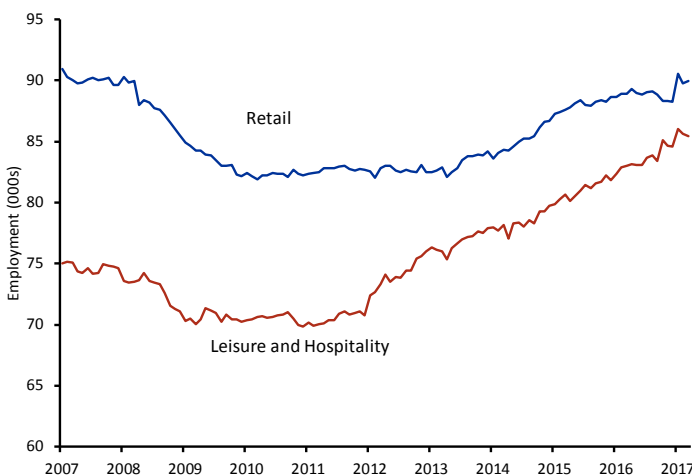


The furniture industry in west Michigan continued its positive trend during the first quarter of 2017.

According to Brian Long of the Institute for Supply Management, the office furniture industry shows signs of topping out. Office furniture suppliers had a good spring, he says, but the gains accrued more to the smaller manufacturers than to the larger ones.

The employment situation also improved in the first quarter of 2017. While the overall industry has grown consistently since 2009, furniture employment did not start growing until 2014. Shown as the red line, employment is at 118, meaning it is 18 percent higher than it was in 2012. Currently there are about 12,700 persons employed in furniture manufacturing in the Grand Rapids MSA.

Leisure and Hospitality Employment in West Michigan, 2007–2017

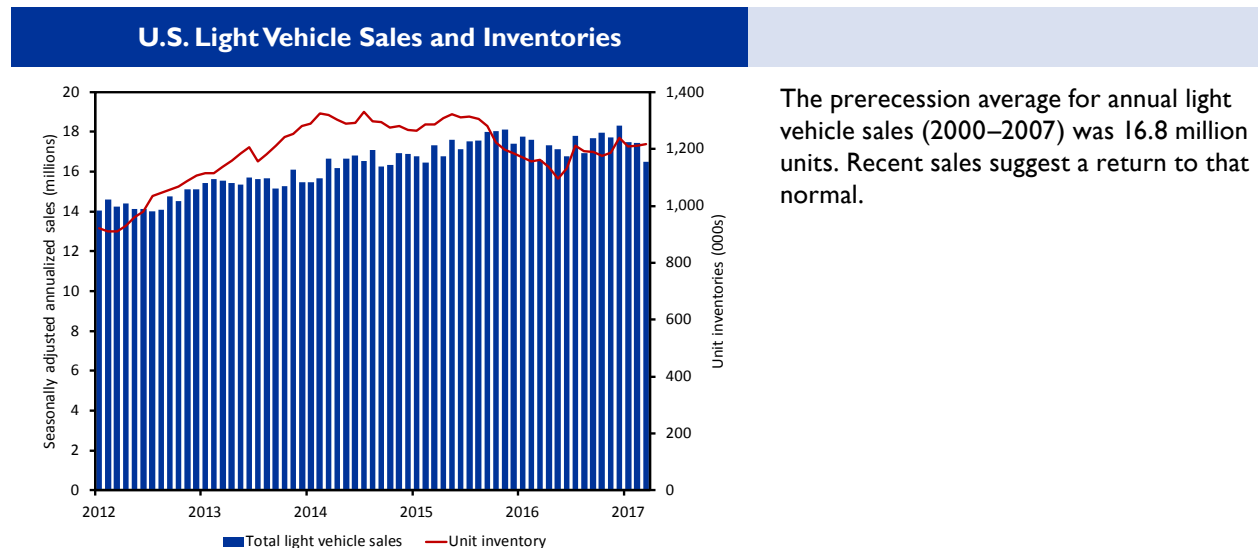


In 2007, there were more than 90,000 retail employees in the metro areas of west Michigan and about 75,000 leisure and hospitality employees. Both industries took a hit during the Great Recession, but regrowth has been more robust in leisure and hospitality.

This issue of *Business Outlook* is focused on elements of retail employment, and closely related to that is leisure and hospitality employment. The leisure and hospitality sector includes hotel, restaurant, and arts and entertainment employment—occupations with similar training and skill sets to retail—and it appears to be growing more rapidly than retail.

AUTO INDUSTRY UPDATE

Sales of autos and light trucks are receding from the highs reached in 2015, sliding back toward the norms set during a period of steady sales from 2000 to 2007. Although late 2015 saw annualized sales rates exceed 18 million units, the average is 16.8 million units (see figure below). Annualized sales for March of 2017 were somewhat under that average, at 16.6 million units. The University of Michigan's forecasting unit has lowered its outlook for light vehicle sales slightly, to 17.2 million units for 2017 and 17.1 million units for 2018.



Correspondingly, inventories remain relatively high but are down from their peak in 2015. Because sales have begun to slow, manufacturers are offering more incentives, and the glut of used vehicles is causing prices to drop. *Automotive News* reports that “prices of used cars are falling steadily, inventories are rising, and carmakers are dialing up discounts.” The publication predicts that the number of used cars will rise further as cars currently under lease are returned to the market by the end of 2019. Those who own their vehicles are hanging on to them: the average age of vehicles on the road has risen from 11.4 years in 2014 to 11.6 years in 2016, as the quality of vehicles, both mechanically and structurally, has improved.

Vehicle sales, of course, have a large impact on Michigan jobs. In 1990 there were 91,000 workers in assembly plants and 190,000 in the auto parts industry. In 2009, during the recession, those numbers dropped to 26,700 and 81,400. Since then, they have rebounded to 37,000 and 127,000. But given the industry's growing use of both automation and artificial intelligence, it is unlikely that employment will return to the previous peaks.

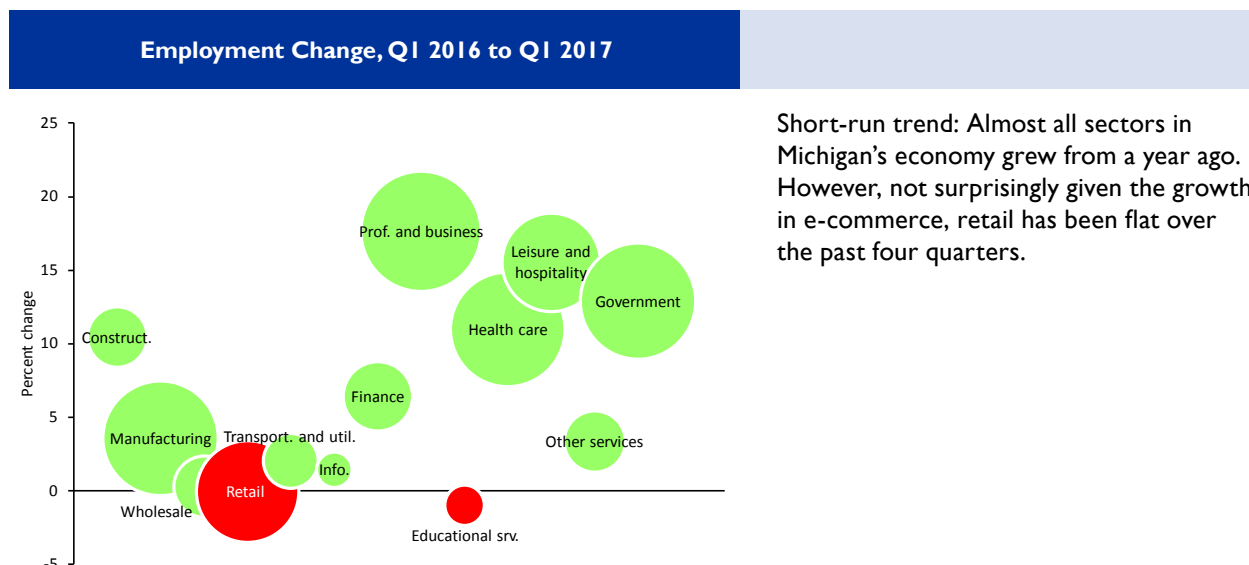
However, Michigan is working to develop a competitive advantage in autonomous vehicles (AVs)—self-driving cars. The governor, the legislature, and the state's economic development agency, the Michigan Economic Development Corporation (MEDC), have worked to facilitate growth in autonomous vehicles. In November, MEDC contracted with a Chinese-based company to set up an office in the state “to improve (their) connected infrastructure, increase innovation, entrepreneurship and technology start-ups, and increase research and testing of new technologies.” MEDC has invested in the American Center for Mobility (ACM), an \$80 million facility at the Willow Run manufacturing site near Detroit, contributing 20 million in late 2016 and additional \$15 million in April of 2017. MEDC also established a Renaissance Zone, which abates property taxes.

In December, Governor Snyder signed legislation allowing automakers and tech companies to develop, test, and sell autonomous vehicles in Michigan. At the end of 2016, GM announced that it would test versions of its Bolt AV, to be produced in Michigan. Around that time, Toyota opened a research institute in Ann Arbor to build its autonomous systems primarily in-house.

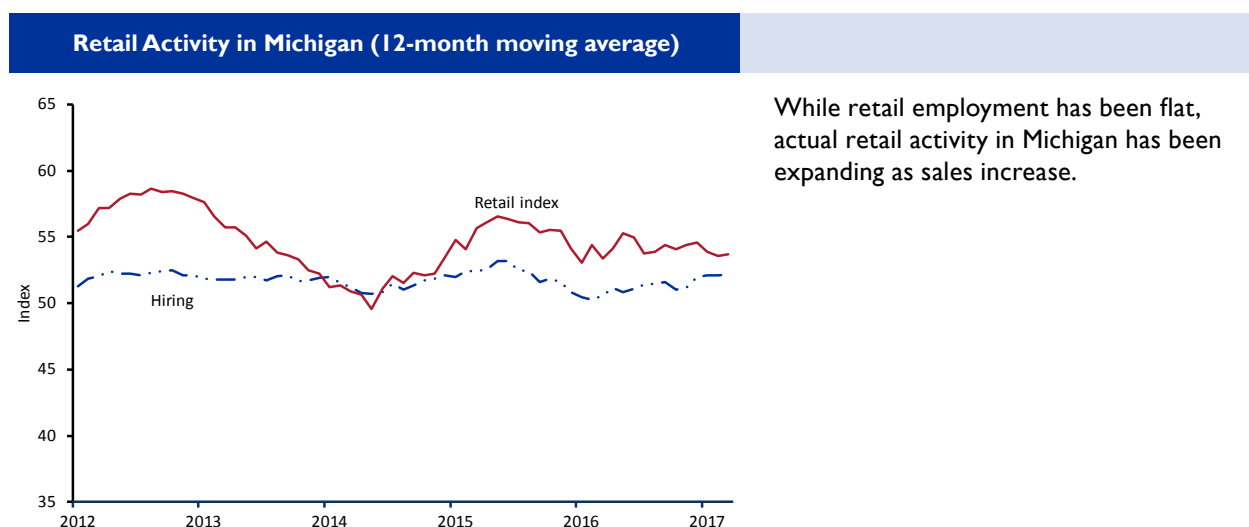
But the challenge, as with much of production and manufacturing in Michigan, is finding workers. To compete in the new virtual machine technology, Detroit must remake itself. After all, Detroit is competing with Silicon Valley for recent grads. Recognizing this, a Motor City makeover is occurring as the city seeks to make itself a more attractive place for tech-oriented millennials.

STATE OF MICHIGAN ECONOMY

Michigan's economy continues to roll along. Total nonfarm employment grew at just under 2 percent between the first quarters of 2016 and 2017 (right on its postrecession average of 1.9 percent) as the state added 80,000 new jobs. Nearly all sectors saw increases in employment. And while the University of Michigan's forecast for manufacturing employment was negative, both nondurable and durable goods added jobs—1,400 and 2,200, respectively. The service industries also bolstered their ranks: professional and business services added more than 17,600 jobs, and leisure and hospitality grew by more than 15,500. The government sector contributed an additional 13,000 jobs across all levels of government (see figure below).



While the labor market remains tight, the unemployment rate did inch up from 5.0 percent to 5.2 percent from the first quarter of 2016 through the first quarter of 2017, as the ranks of the unemployed increased by nearly 15,000. But these trends should not be cause for alarm: while the economy was adding jobs, new unemployment claim filings fell by 1 percent, suggesting that the increase in the number of unemployed may merely be due to new entrants into the labor market rather than to newly unemployed persons being separated

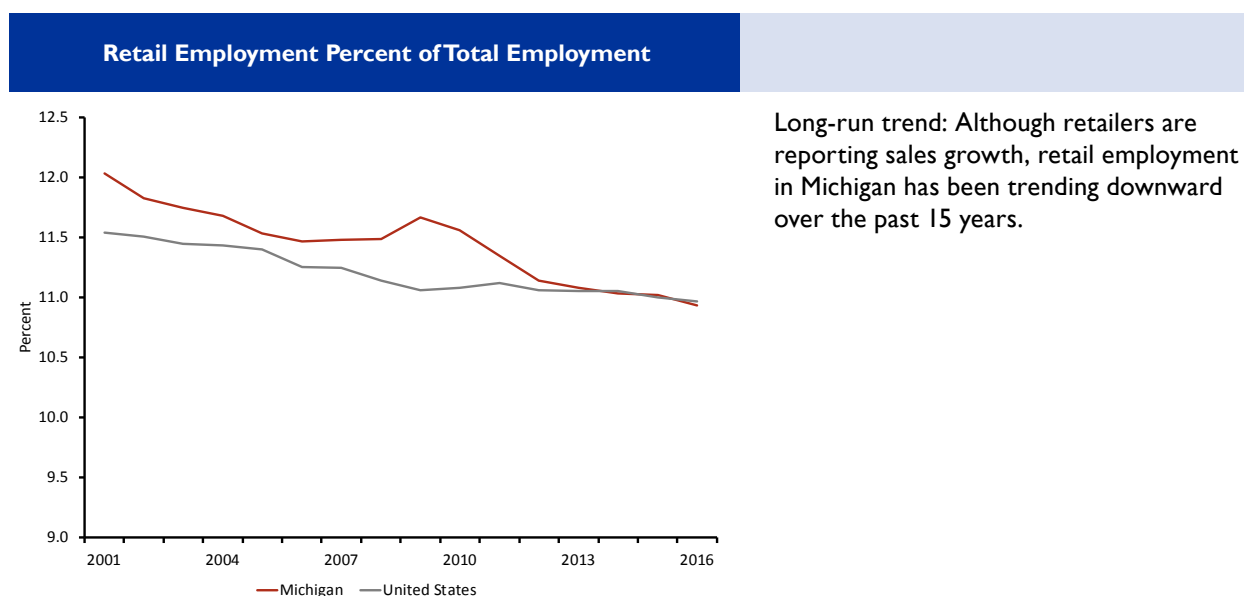


NOTE: Index = % reporting an increase in sales + [0.5 x (% reporting no change)].

from their employers. If these are new entrants into Michigan's labor market, that is good news for both employers and potential employees.

That's because employers across the state continue to express concerns about the dearth of workers for available openings. And while there is no way to know whether the new entrants are qualified for current openings, the increase in workers suggests that the labor force participation rate (the share of workers 16 and over that are either working or looking for work), at 60.3 percent, may at last be trending upward from historic lows. Additional workers in the economy create opportunities for the state to grow.

One question that continues to nag at the business and economic-development communities is whether we are entering a retail "ice age" or "apocalypse." The question here is how will online buying and e-commerce affect brick-and-mortar retail, both nationally and in Michigan? Based on reports from CoStar, a database supplier for commercial real estate, from 2008 through the first quarter of this year, square footage for retail in Michigan grew by more than nine million square feet, from a base of about 550 million square feet. Even with that additional square footage, vacancies in retail are down: During the recession, the retail vacancy rate was 7.7 percent; in contrast, the vacancy rate in the first quarter of 2017 was 4.8 percent. Employment bottomed out in 2010 at 446,000 and is now up to 472,000.



But a few signs of weakness are lurking in the market. First, the average rent per square foot has declined since 2008. While the overall drop is only about a dollar per square foot for all types of retail, it does suggest that the market may be softening a bit. And although the retail index is fairly stable (see bottom figure opposite page—anything above 50 in the index suggests expansion or increasing sales) and hiring seems to be at a relatively constant level, the share of total employment accounted for by retail since the recession has been declining (see figure above).

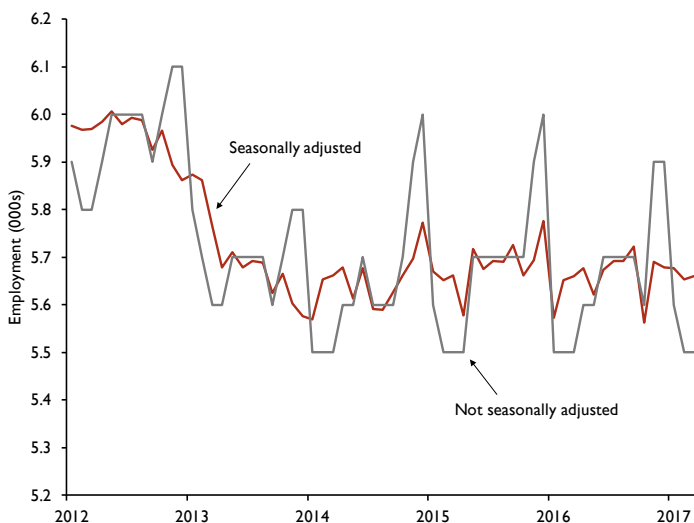
As Amazon, other e-commerce providers, and even the online activities of brick-and-mortar stores themselves continue to eat into the on-site sales of local, regional, and national retailers located here in southwest Michigan, there are likely both good and bad outcomes to this trend. On the downside, jobs will be lost at retail stores, as is being seen even now in the decline of department stores such as Sears, Kmart, Macy's, and JCPenney. As stores close, property becomes available that will need to be repurposed rather than simply used to house another store with new retail clients. And with adaptive reuses of the real estate, the nature of jobs at those locations will change.

In particular, the future of malls seems uncertain. As big box retail stores and mall anchors, with their considerable square footage and overhead, become unable to compete with e-commerce channels, their large footprints provide broad opportunities for reuse of the space, whether from renovating the existing space or from leveling the buildings for new use, including residential. This is but one of the many changes and challenges coming to retail and the communities that depend on it to create employment and a locus of activity.

BATTLE CREEK MSA

In this issue, we examine aspects of retail employment, in addition to looking at the changes in the economy over the first quarter of 2017. The figure below shows seasonally adjusted retail employment along with not seasonally adjusted employment. The spike in employment occurs in autumn for holiday hiring and returns to a baseline after the new year. In the Battle Creek MSA, the baseline is consistent with about 5,500 jobs. The 2016 fall hiring season was not as robust as in previous years, as unadjusted employment topped out at 5,900 jobs rather than 6,000.

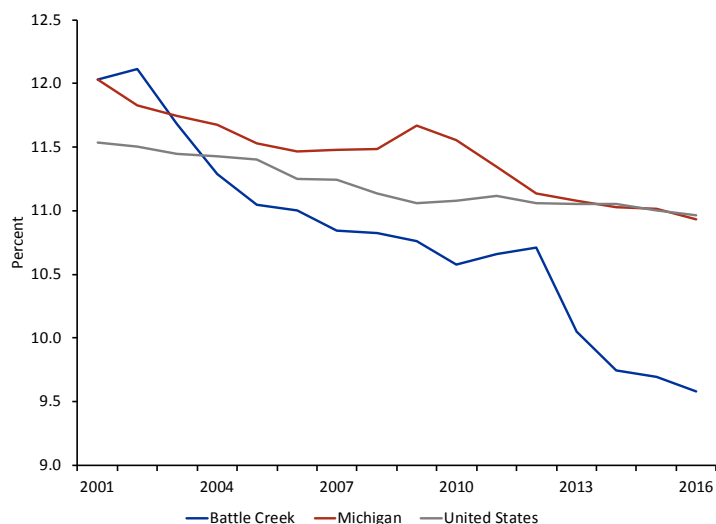
Retail Employment in Battle Creek MSA, 2012–2017



Retail employment has been stable since 2012. The pattern of seasonal hiring and layoffs has been consistent, though the most recent holiday season saw slightly fewer new hires.

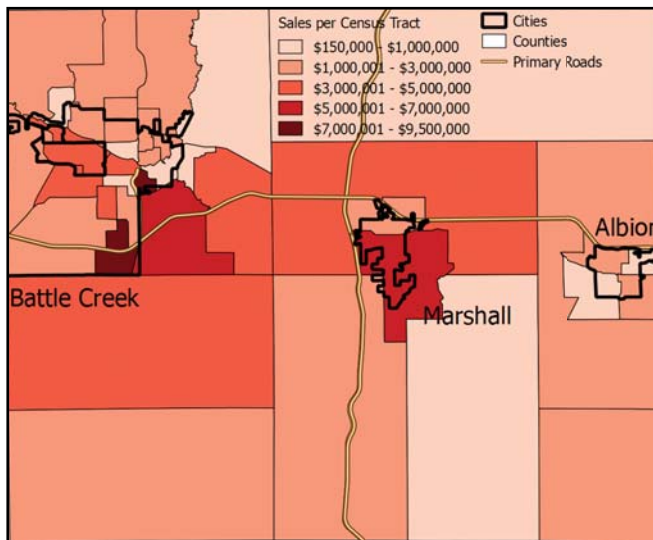
Retail employment in Battle Creek, as a share of overall employment, has fallen nearly continuously since 2002. In that year, retail employment accounted for 12 percent of total employment, but by 2016 it had fallen to just 9.5 percent. That decline in retail share was steeper than either the national or the statewide decrease (bottom figure). Furthermore, during the same period, the actual number of retail jobs in Battle Creek fell by

Retail Employment Percent of Total Employment in Battle Creek MSA, 2001–2016



While the number of employed persons has been stable in retail since 2014, retail employment in the Battle Creek MSA has declined further as a percentage of total employment than it has in the nation or the state of Michigan.

Battle Creek MSA Sales Per Census Tract, 2014



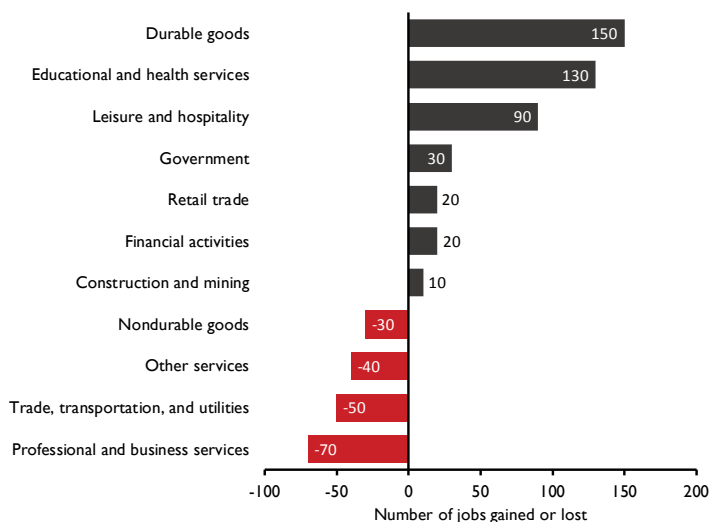
Primary nodes for retail employment are along highways and in downtown Battle Creek.

1,640 jobs, or 22.5 percent. The above map shows retail sales in 2014 by census tract. The two tracts with the highest sales are downtown Battle Creek and the south end of the city of Battle Creek along I-94. While downtown Battle Creek is a major retail hub, several of the neighboring tracts have relatively little retail activity.

In the overall economy, total employment in Battle Creek increased by 0.4 percent, or 240 jobs, during the first quarter of 2017 (figure below). Employment growth was led by durable goods manufacturing, which increased by 150 jobs. Education and health services posted a 130-job increase. Nondurable goods manufacturing shed 30 jobs over the quarter, continuing a slight downward trend. Nondurable goods manufacturing has fallen by 4.0 percent from the first quarter of 2016, a loss of 100 jobs.

The unemployment rate increased to 4.8 percent over the first quarter of 2017, up from 4.5 during the fourth quarter of 2016. New claims for unemployment insurance rose by 7.8 percent during the same period. More on industry employment change, unemployment, and housing starts is at research.upjohn.org/bus_outlook/.

Employment Change in the Battle Creek MSA, Q4 2016 to Q1 2017

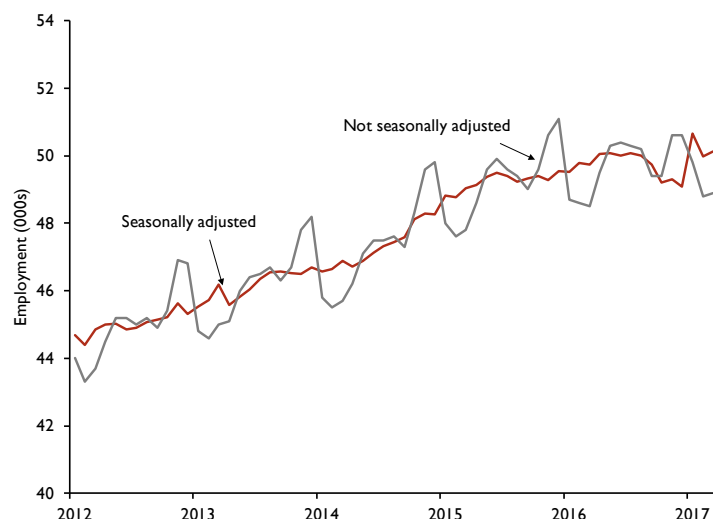


Employment increased by 240 jobs during the first quarter of 2017. Construction and mining led employment gains—similar to the previous quarter, when construction was the second-largest growing industry.

GRAND RAPIDS–WYOMING MSA

In this issue, we examine aspects of retail employment in addition to looking at the changes in the economy over the first quarter of 2017. Back in 2001, the Grand Rapids–Wyoming MSA had a lower concentration of retail employment than either the state or the nation, at 11 percent (see figure below). Retail share of total employment has since fallen to just over 9 percent, while national and state retail remains above 11 percent (see bottom figure).

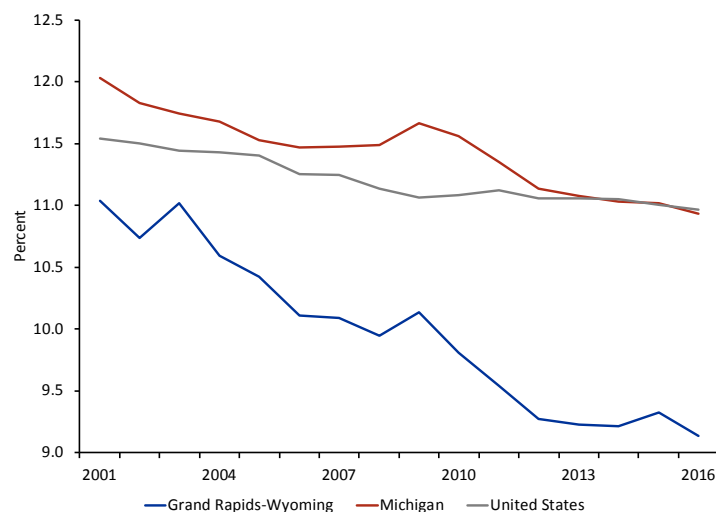
Retail Employment in Grand Rapids–Wyoming MSA, 2012–2017



Retail employment grew through 2016 but appears to be reaching a peak: seasonal hiring at the end of 2016 was not as robust as in previous years.

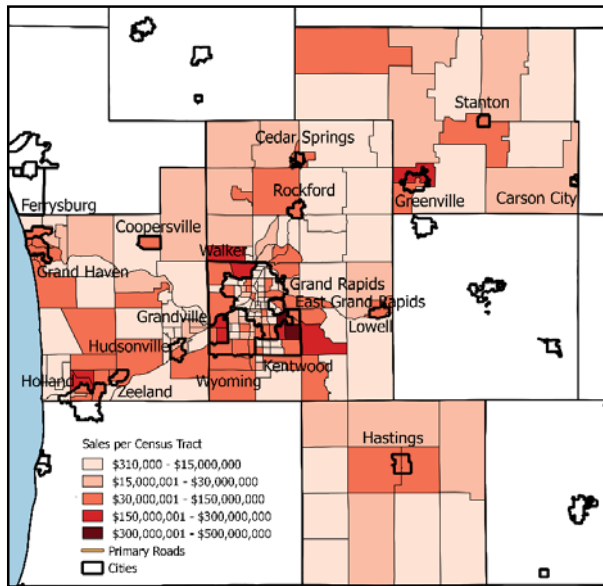
Retail employment grew from 2012 until mid-2015 but appears to have reached a plateau (figure above). The Grand Rapids area typically experiences two peaks a year in not seasonally adjusted employment: one modest peak midyear, followed by a loss, and then the holiday hiring spike. In 2016, holiday hiring was smaller than in previous years, causing the seasonally adjusted line in the figure below to fall. However, the postholiday employment decline in the new year was also less than in previous years, and so the seasonally adjusted line returned to the trend.

Retail Employment Percent of Total Employment in Grand Rapids–Wyoming MSA, 2001–2016



Retail employment has been growing in terms of the number of people employed. Nevertheless, retail has been contracting in terms of percentage of total employment—even more so than it has in the state or the nation. The tight labor market in the Grand Rapids area could be drawing people into higher-wage industries.

Grand Rapids–Wyoming MSA Sales per Census Tract, 2014



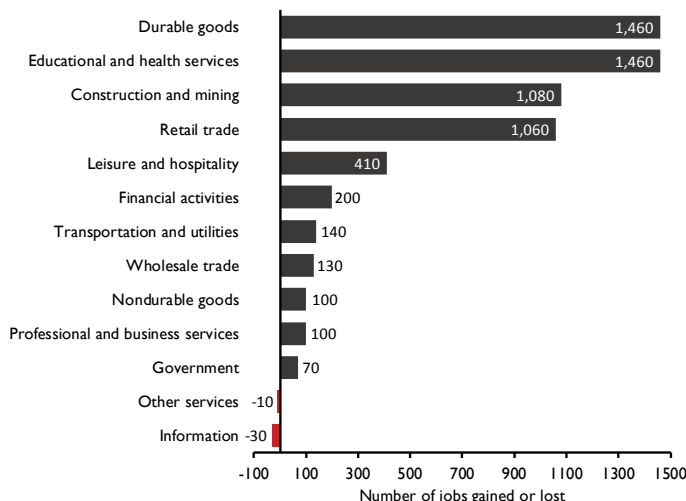
Retail hubs are located in the area outside the large cities. Core cities in smaller counties are retail hotspots, but both Grand Rapids and Holland show the highest retail to be at the periphery of the city.

The map shows retail sales concentrated on the periphery or outside the city of Grand Rapids in the surrounding townships. The Woodland Mall is outside the city limits of Grand Rapids. The census tracts in the city of Grand Rapids have lower retail sales than the rural townships in the surrounding counties.

The Grand Rapids area enjoyed a solid first quarter, with growth of over 6,000 jobs. Improvement was evenly split between the goods and services sectors. Durable goods manufacturing growth matched educational and health services growth at 1,460 jobs. Construction and mining and retail employment were similar, with nearly 1,100 jobs each (figure below).

The area unemployment rate held steady at 3.4 percent, unchanged from both the previous quarter and the first quarter in 2016. New claims for unemployment insurance fell by 15.7 percent, while new home construction fell by 17.5 percent. More detail on industry employment change, unemployment, and housing starts can be found on our website at research.upjohn.org/bus_outlook/.

Employment Change in Grand Rapids–Wyoming MSA, Q4 2016 to Q1 2017

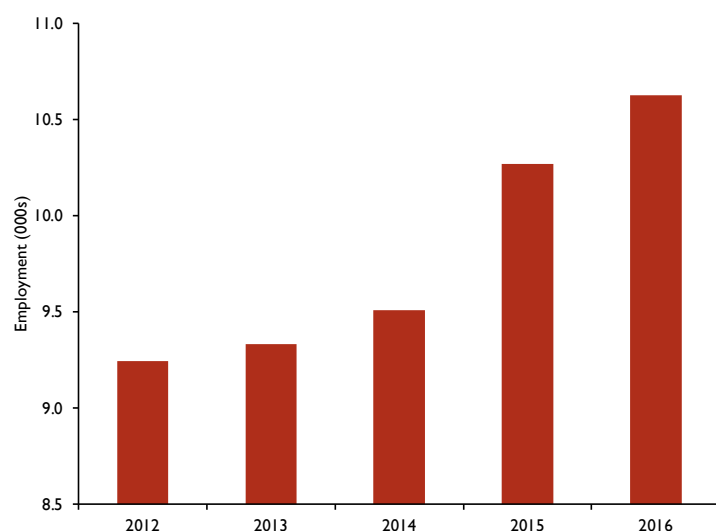


Employment increased by 1.1 percent in the first quarter of 2017, with growth coming equally from durable goods manufacturing and educational and health services. Along with construction and mining, these industries also posted the largest gains in the fourth quarter of 2016.

HOLLAND—OTTAWA COUNTY

In this issue, we examine aspects of retail employment, in addition to looking at the changes in the economy through the first quarter of 2017. Total retail employment increased in Ottawa County to more than 10,500 in 2017. Growth was slow from 2012 to 2014 (figure below). Retail employment as a share of total employment started below the statewide and national shares in 2001 and, until recently, has fallen at a similar rate to the statewide trend. Along with the retail employment growth of 2015 and 2016, the share of retail grew as well during those years, bucking national and statewide trends (bottom figure).

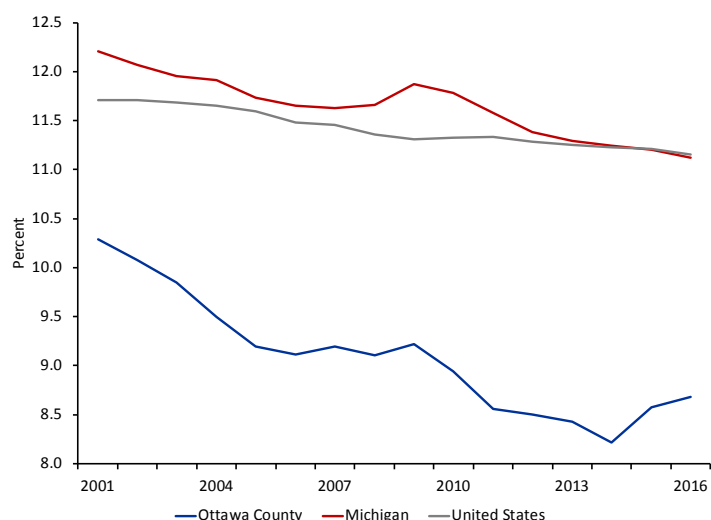
Retail Employment, Holland—Ottawa County, 2012–2016



Retail employment grew at a stronger pace in Ottawa County in 2015 and 2016, after modest growth in preceding years. Unfortunately, we do not have monthly data for retail employment in Ottawa County.

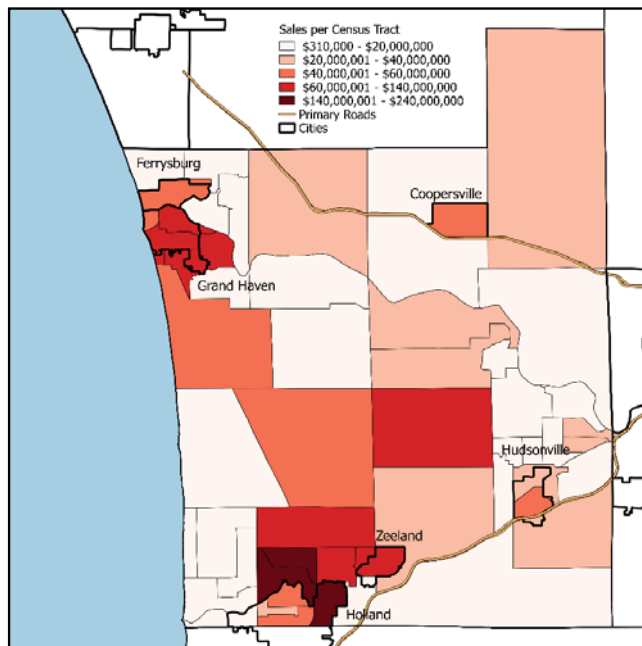
The map on the next page shows where retail employment lies in the county. The largest retail area is within the city of Holland and immediately to the north, outside the city. The cities in Ottawa County are obviously retail zones, but additionally, the area along US-31 connecting Holland and Grand Haven is a retail corridor.

Retail Employment Percent of Total Employment in Holland—Ottawa County, 2001–2016



Retail employment is well below that of the nation and state as a percentage of total employment, even though retail has grown as a percentage over the past two years, contrary to national and statewide trends.

Ottawa County Sales per Census Tract

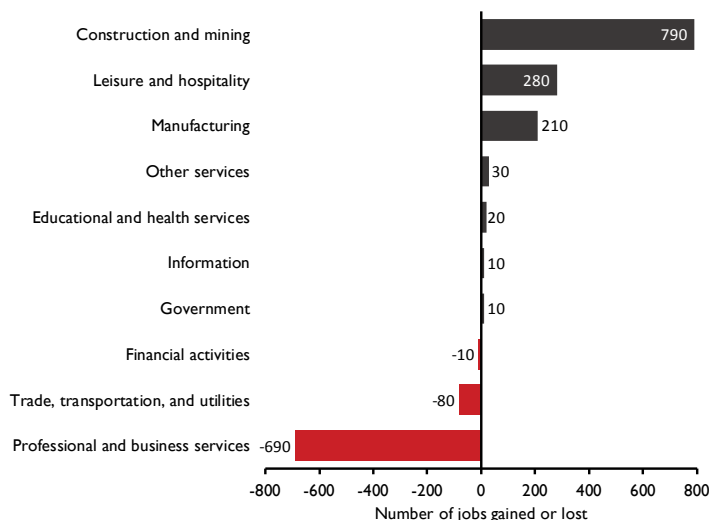


The major retail activity in Ottawa County is located on the edge of the city of Holland or just outside. In many areas of west Michigan, retail is concentrated along highways, rather than in the central city.

Employment improved by 0.5 percent, 570 jobs, over the fourth quarter of 2016 in Ottawa County. Goods-producing employment drove job growth at the end of 2016. Gains were led by nearly 800 new jobs in construction and mining; manufacturing added 210 jobs. Service employment change was mixed. While leisure and hospitality employment posted the second-most gains, 280 jobs, professional and business services shed nearly 700 jobs over the fourth quarter (figure below).

During the first quarter of 2017, unemployment fell to 3.1 percent, from 3.2 in the previous quarter. The rate of initial claims for unemployment insurance fell by 2.9 percent over the same period. More detail on industry employment change, unemployment, and housing starts can be found on our website at research.upjohn.org/bus_outlook/.

Employment Change in Holland-Ottawa County, Q3 2016 to Q4 2016

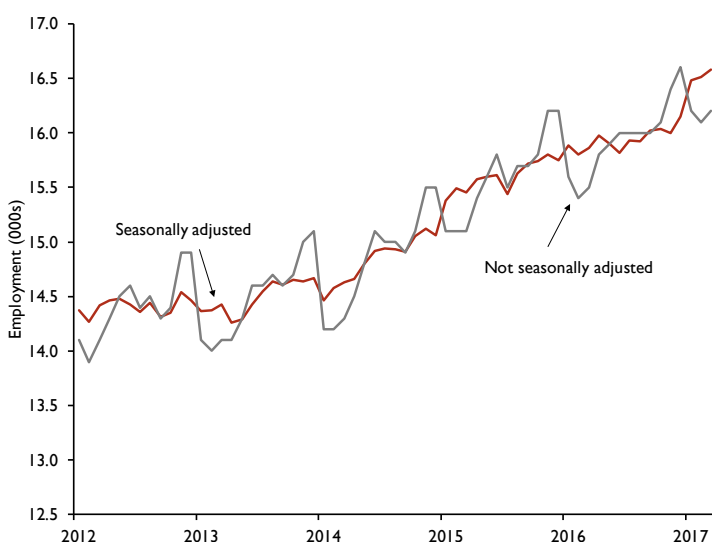


Employment grew by 0.5 percent, with mixed performance among industries, as some grew and others fell. Big gains in construction were offset by losses in professional and business services.

KALAMAZOO-PORTAGE MSA

In this issue, we are examining aspects of retail employment in addition to looking at the changes in the economy over the first quarter of 2017. Retail employment in the Kalamazoo MSA has grown since 2014 (figure below). Looking at the not seasonally adjusted line, in 2014 and 2016 the holiday hiring and new year layoffs tend to match, meaning that the employment level falls below the level prior to the fall peak. However, in 2015 and so far in 2017, the new year layoffs were less than expected, which has caused the not seasonally adjusted employment level to rise in the first quarter.

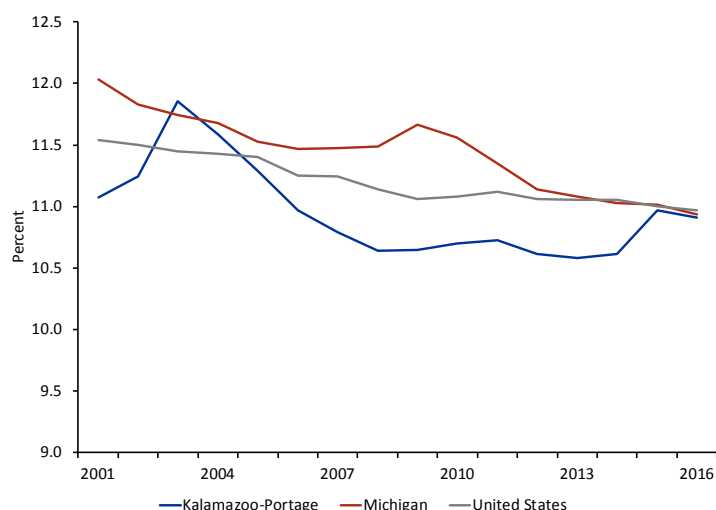
Retail Employment in Kalamazoo-Portage MSA, 2012-2017



Retail employment has grown steadily in Kalamazoo since mid-2014. The seasonal layoffs were half of what was expected, pushing seasonally adjusted retail employment up by 470 jobs in the first quarter of 2017.

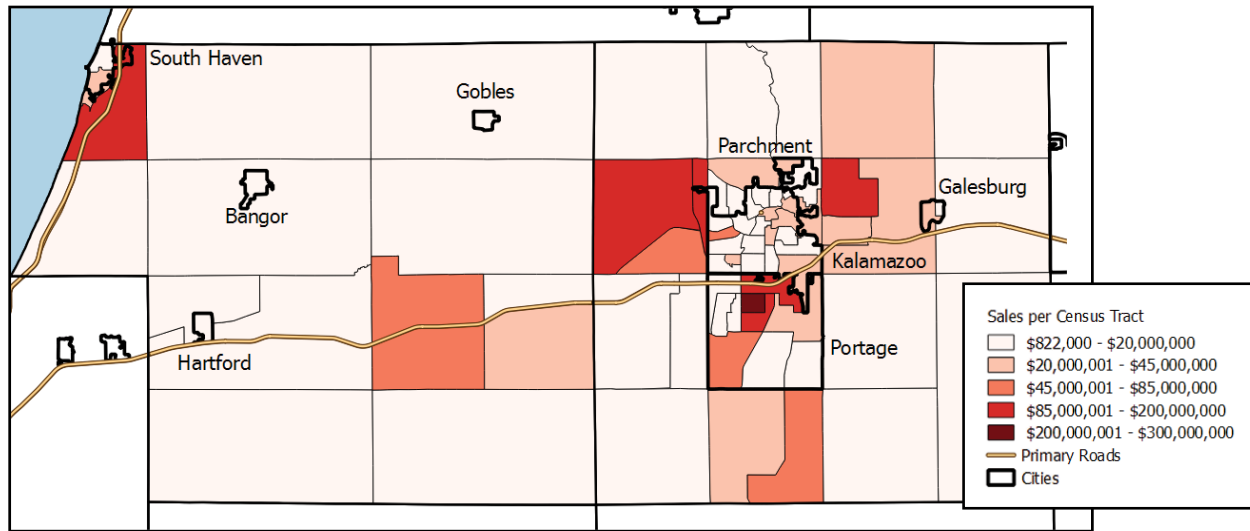
The figure below shows the percentage of total employment occupied by retail employment in the Kalamazoo-Portage MSA. From 2001 to 2014, the percentage of retail employment in the area followed the general trend of the state and nation, although inconsistently. As retail employment has grown in the last several years, the

Retail Employment Percent of Total Employment in Kalamazoo-Portage MSA, 2001-2016



Even as retail employment has grown, the share of retail employment as a percentage of total employment has fallen at a similar rate to that of the nation and state, except for an abrupt rise in 2014-2015. In recent months the three rates have been tracking exactly.

Kalamazoo-Portage MSA Sales Per Census Tract, 2014

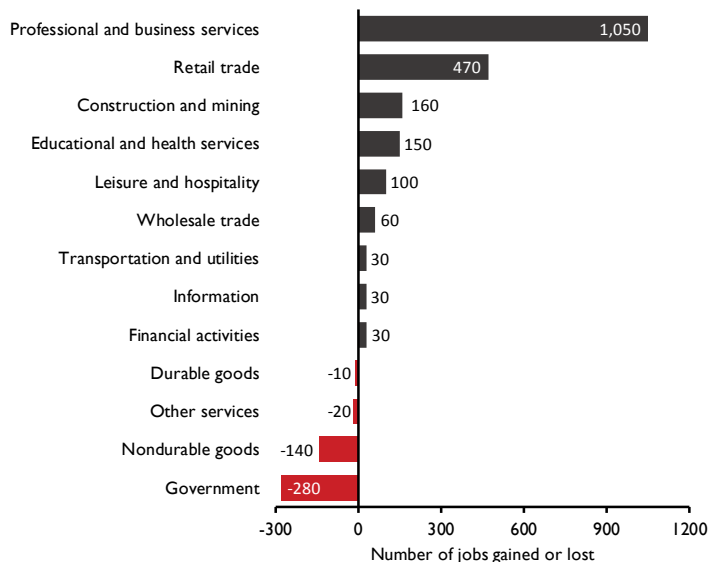


percentage employed in retail increased and is now around 11 percent, exactly where it started in 2001.

The map above suggests retail in the MSA is concentrated along highway areas rather than population centers. In South Haven, the largest sales are in the tract with I-196 rather than along the lakeshore. In Kalamazoo County, the retail zones are in Portage along I-94 and in Oshtemo and Comstock Townships.

The figure below shows employment in the first quarter of 2017 was boosted by over 1,000 additional jobs in professional and business services. The earlier-discussed employment increase in retail was the second largest growth, at 470 jobs. Nondurable goods production fell by 140 jobs, continuing a rough year for nondurables. The industry is down by 190 jobs from the first quarter of 2016. The private sector fell by 280 jobs. Overall, employment improved in the first quarter by 1,630 jobs, or 1.1 percent. The unemployment rate increased slightly, to 4.3 from 4.2, in the fourth quarter of 2016. More detail on industry employment change, unemployment, and housing starts can be found on our website at research.upjohn.org/bus_outlook/.

Employment Change in Kalamazoo-Portage MSA, Q4 2016 to Q1 2017

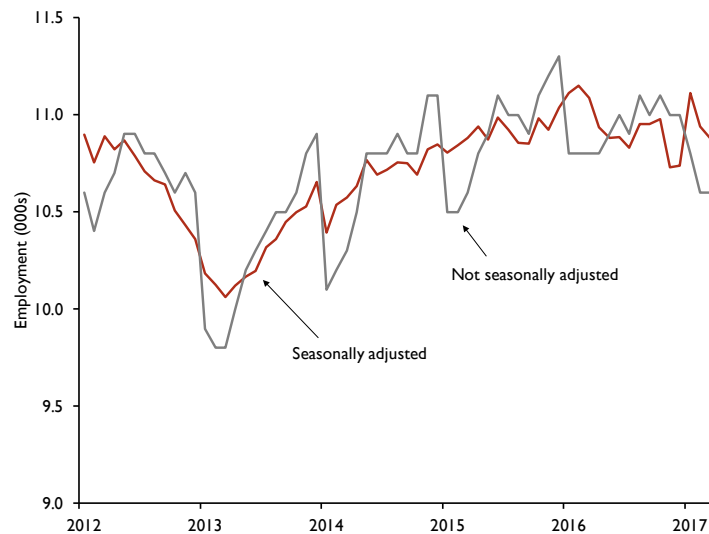


Professional and business services led employment growth in Kalamazoo, as was also the case in the previous quarter. This industry contains temporary staffing firms, so the new hires could actually represent a variety of industries.

MUSKEGON–NORTON SHORES MSA

In this issue, we examine aspects of retail employment, in addition to looking at the changes in the economy over the first quarter of 2017. Retail employment fell during and after the Great Recession until early 2013, when employment began rebounding. The figure below shows the normal seasonal hiring and layoff pattern being disrupted in 2016. Normally there is a small peak for summer retail and a larger peak for holiday retail. However, in 2016, the retail peak was modest, followed by layoffs that brought employment to a lower level for the first quarter of 2017 than in the first quarter of 2016.

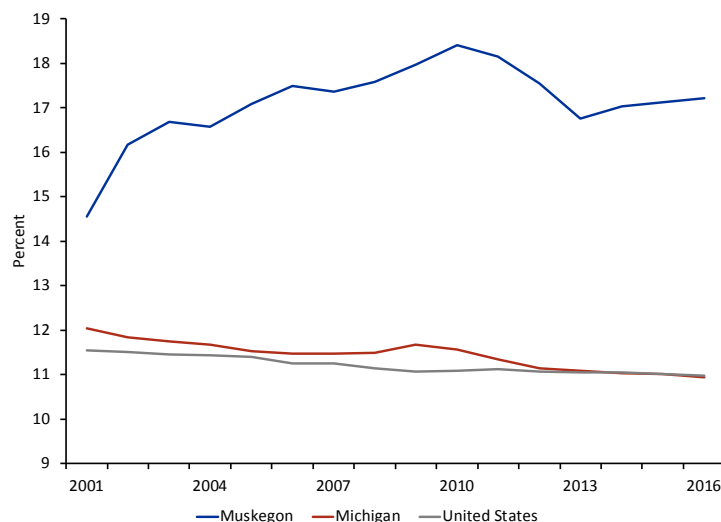
Retail Employment in Muskegon–Norton Shores MSA, 2012–2017



Retail employment has remained steady since bottoming out in mid-2013. The seasonal hiring was not as robust during the holiday season of 2016 as in previous years.

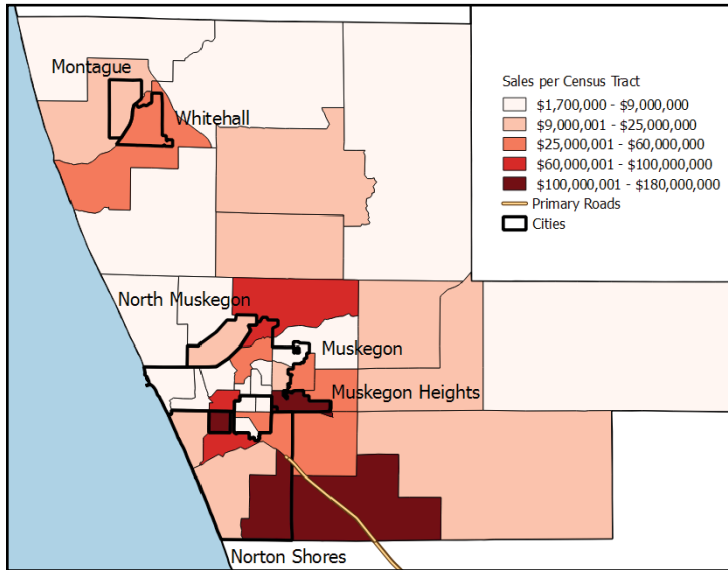
In spite of the recent employment losses, retail employment in Muskegon is considerably higher as a percentage of total employment than for the state or nation (figure below). Retail employment is 17 percent of total employment, which is up from 2001, contrary to national or statewide trends. More detailed industry

Retail Employment Percent of Total Employment in Muskegon–Norton Shores MSA, 2001–2016



Retail employment as a percentage of total employment is higher in Muskegon than for the state or nation, and until 2011 it was growing in spite of national and statewide trends. Even after the number of retail workers fell from 2011 through 2014, the percentage of workers in retail grew in Muskegon. This was contrary to statewide trends, but similar to other areas of west Michigan.

Muskegon–Norton Shores MSA Sales per Census Tract, 2014



employment data show that Muskegon has a considerably higher percentage of employment in motor vehicle and parts stores and general merchandise stores.

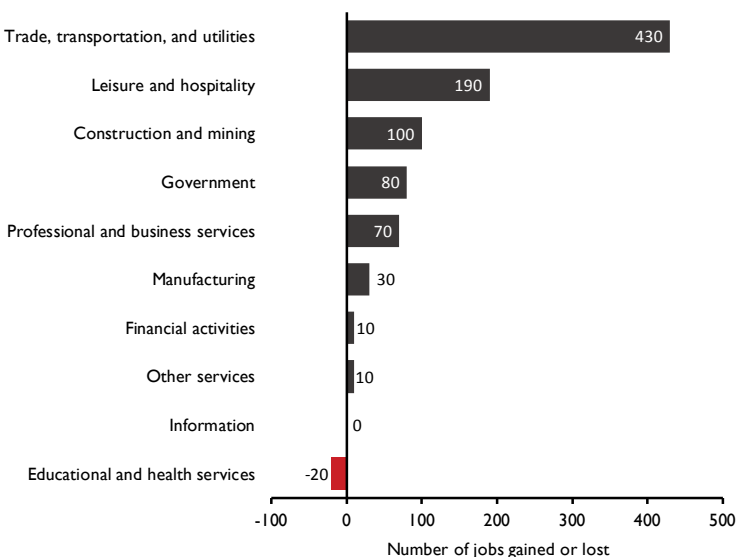
The map at left shows the retail sales per census tract in Muskegon in 2014. Retail nodes appear in the southern part of the county, especially along I-96. Similar to other areas in west Michigan, retail is concentrated close to, but outside of, primary cities, whereas in smaller cities it is concentrated right in town.

The figure below shows seasonally adjusted employment change during the first quarter of 2017. Total employment increased by 1.4 percent, or 900 jobs, over the quarter. Gains were largest in the service-providing sector, and the biggest gains there were in trade, transportation, and utility

employment, where retail trade growth accounted for 130 jobs of the 430. Unfortunately, we do not have the data available to separate whether the rest of the job growth was driven by wholesale trade, transportation, or utility employment. Leisure and hospitality employment added 190 jobs over the quarter. Construction and mining employment drove goods-producing employment, adding 100 jobs, while manufacturing posted just a 30-job increase.

The area's unemployment rate increased during the first quarter of 2017 to 5.3 from 5.1 in the previous quarter. Initial claims for unemployment insurance increased by 3.5 percent. More detail on industry employment change, unemployment, and housing starts can be found on our website at research.upjohn.org/bus_outlook/.

Employment Change in Muskegon–Norton Shores MSA, Q4 2016 to Q1 2017

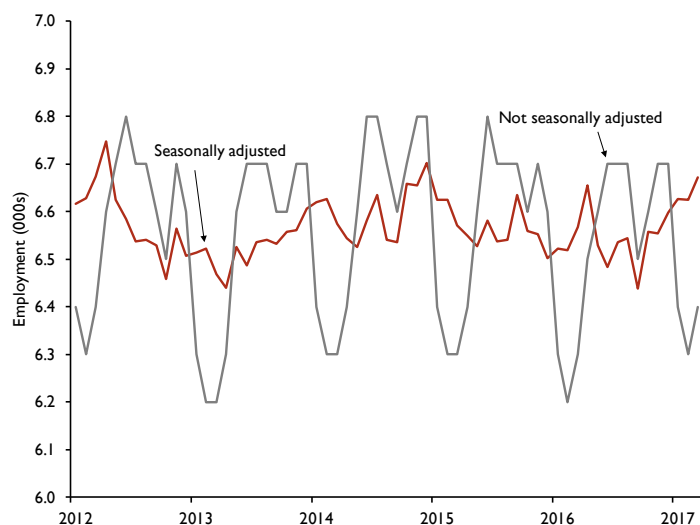


Employment improved in nearly every industry in Muskegon over the first quarter of 2017, pushing total employment up by 1.4 percent—the largest gain since the end of the Great Recession.

NILES–BENTON HARBOR MSA

In this issue, we examine aspects of retail employment in addition to looking at the changes in the economy over the first quarter of 2017. Employment in retail has been steady since 2012 (figure below). The not seasonally adjusted data typically show two spikes in retail employment in a given year. Because of tourism along the lakeshore, a peak in retail employment occurs midyear. This is greater than or equal to the second spike—the holiday hiring that happens in October. The employment level in retail drops off as expected in the new year, but so far in 2017 the drop has not been as great as in previous years, which has pushed the seasonally adjusted employment level higher.

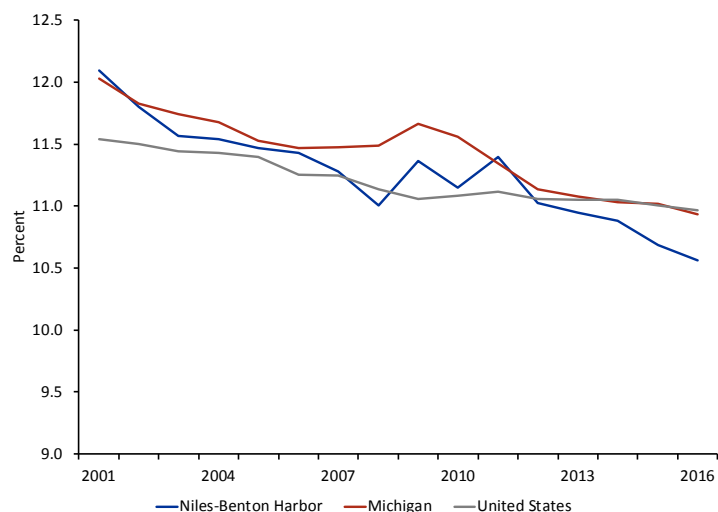
Retail Employment in Niles–Benton Harbor MSA, 2012–2017



Retail employment has been steady since 2012. In contrast to the other MSAs, seasonal hiring for the tourist season is equal to, if not greater than, holiday hiring.

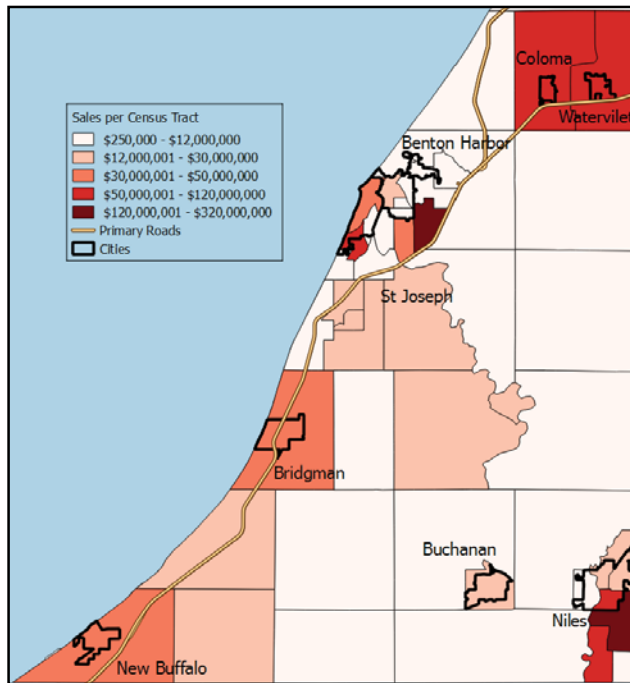
The Niles–Benton Harbor MSA, while experiencing a similar decline in the percentage of retail employment as the nation and the state, suffered steeper losses than most of west Michigan (figure below). However, the percentage of total employment in the area starts in 2001 at a higher level than the state and nation and ends

Retail Employment Percent of Total Employment in Niles–Benton Harbor MSA, 2001–2016



The decline of retail employment as a percentage of total employment has been swifter in the Niles–Benton Harbor MSA than in the nation or state.

Niles-Benton Harbor MSA Sales per Census Tract, 2014



in 2016 at lower than both. While the share of retail has been declining, the actual employment in retail has been steady since 2012.

Retail employment in the MSA is concentrated along I-94, even more so than in the cities (map at left). While there is obviously a connection between the cities and retail sales, notice that near Benton Harbor and St. Joseph, retail is found along the highway or the lakeshore, rather than within the city limits.

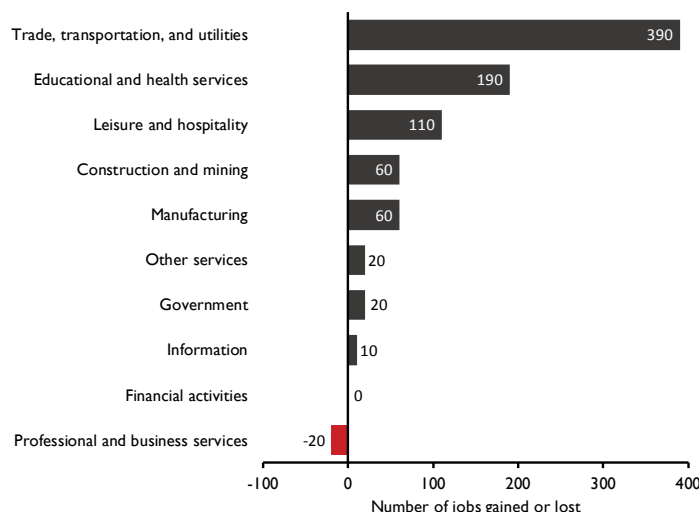
Total employment in the area increased by 1.4 percent, or 840 jobs, over the first quarter of 2017 (figure below). Job growth was led by the services sector—particularly the subsector of trade, transportation, and utilities, which increased by nearly 400 jobs. This subsector includes wholesale trade, retail trade, transportation and warehousing, and utilities. Education and health services increased by 190 jobs. The goods-producing sector posted modest gains, as both the manufacturing and construction fields increased by 60 jobs.

Professional and business services was the only industry to post a job loss during the first quarter.

The unemployment rate increased to 5.0 percent over the first quarter of 2017, from 4.8 during the fourth quarter of 2016. The growth in the unemployment rate came in spite of a small decrease in the number of new claims filed for unemployment insurance, down from 106 claims per week in the fourth quarter of 2016 to 96 claims per week the following quarter. The growth in the number of unemployed could be due to persons entering the labor force rather than persons becoming unemployed from job loss.

More detail on industry employment change, unemployment, and housing starts can be found on our website at research.upjohn.org/bus_outlook/.

Employment Change in Niles-Benton Harbor MSA, Q4 2016 to Q1 2017

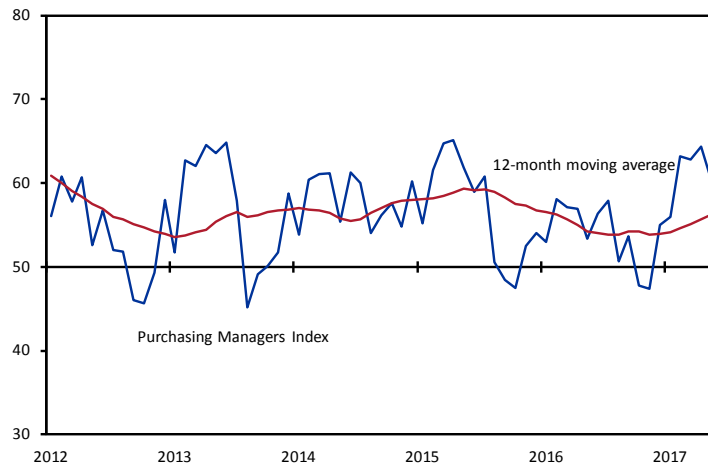


Employment growth in trade, transportation, and utilities led a strong first quarter. Overall, employment improved by 1.4 percent in the area, as nearly every industry picked up jobs.

PURCHASING MANAGERS INDEX

The Purchasing Managers Index, supplied by Brian Long of the Institute of Supply Chain Management, looks positive so far in 2017. Index values above 50 indicate that the manufacturing sector is growing. The data are seasonally adjusted but still typically show some seasonal variation, peaking at the start of the year. For the start of 2017, the index is higher than it was for 2016, and it is on par with its level for 2015 (figure below).

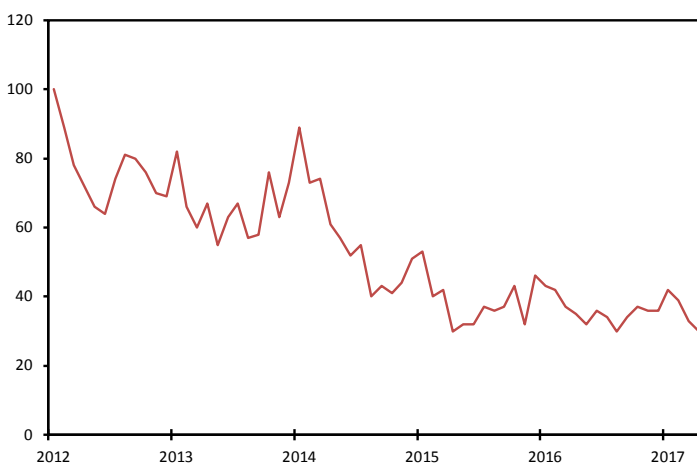
West Michigan Area Purchasing Managers Index



The index components “new orders” and “production” were the primary drivers of growth over the past few months. However, both of these elements have slowed slightly.

Across the industries of west Michigan, performance is modest but positive. Auto parts manufacturers had a good spring, but they cautioned that the normal summer slowdown was coming. The office furniture industry has been strong but “continues to show signs of topping out,” Long says, suggesting that sales will not continue to improve. Since January, capital equipment firms have been on a rally, but that too has slowed.

Relative Percent Change in Interest in Google Search Topic “Welfare and Unemployment” in West Michigan



The data are not seasonally adjusted and tend to peak around the new year. This year, the peak was lower than that of previous years. As expected, the index has fallen through the spring. However, the data show increasing unemployment across the region. The unemployment rate rose to 3.9 percent in the first quarter, from 3.5 percent a year earlier.

Internet search habits reveal that people in west Michigan remain largely unconcerned about losing their jobs. The figure above shows Google searches in west Michigan related to “welfare and unemployment.” The Google search index for this category trended downward through 2014 and has been flat since 2015.

Subscribe to *BUSINESS OUTLOOK*

Call the W.E. Upjohn Institute at (269) 343-5541

or

Visit our website at

www.upjohn.org

Business Outlook is available on our website in PDF format. In addition, our website provides up-to-date economic statistics for west Michigan.

Business Outlook for West Michigan

W.E. Upjohn Institute
300 S. Westnedge Avenue
Kalamazoo, MI 49007-4686

W.E. UPJOHN
INSTITUTE
FOR EMPLOYMENT RESEARCH

300 South Westnedge Avenue
Kalamazoo, Michigan 49007
(269) 343-5541 • www.upjohn.org